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TPI COMPOSITES, INC. (TPIC)

TPIC: 2025 Grass Looking At Least A Little Greener, Upgrading To OP From MP

Q4 Earnings Recap – Price Target & Estimate Updates

2024 Guidance Confirms Year Of Transition, LT Targets Unchanged. **TPIC** reported Q423 results (recap on page 2) and introduced 2024 guidance: net sales of $1.3B-$1.4B (vs. initial Consensus of $1.49B) with adjusted EBITDA margins of 1-3%, or ~$13MM-$42MM (vs. initial Consensus of $47MM) with downside likely stemming from **TPIC** having up to 10 lines in startup or transition throughout 2024 in anticipation of a significant volume recovery in 2025. Despite the relatively softer 2024, **TPIC** also reaffirmed its LT financial targets of +$2B in wind revenue with ~7-9% adjusted EBITDA margins with expectations of eclipsing $100MM in 2025 adjusted EBITDA along the way.

Our Thoughts: Aside from 2023 (and potentially 2024) being a bit bumpier than expected, the road to recovery through 2025 (and our thoughts) hasn't changed much since our last upgrade in late-2022. ~18 months later, **TPIC** has made demonstrable commercial progress while cleaning up several important items along the way (Oaktree refi, China, supply chain, etc.). There's still some wood to chop (Matamoros, QC, liquidated damages, Automotive spin, etc.), but we believe it's reasonable to think **TPIC** could be looking at a fairly significant inflection point in the next 12-18 months.

Expectations Vs. Reality: What we're left contemplating is less about *if* **TPIC** will inflect, but more about *when* and by *how much?* At $3/share, we tend to think the market is crediting **TPIC** for roughly the midpoint of its FY24 guidance, but not much more. On one hand, that makes sense given the tumultuous past few years, and we even think **TPIC's** +$100MM 2025 EBITDA target (from -$86MM in 2023) may prove to be aggressive and its new long-term EBITDA margin target of 7-9% (from 12% in 2020) could be viewed as unreachable and/or unsustainable given margins had been steadily compressing *before* the operating environment meaningfully harshened.

A Little Bit Goes A Long Way: On the other hand, at $3/share, a little bit goes a *long* way for **TPIC**. We've written extensively about our concerns over **TPIC's** ability to retain "peak" margins in a normal operating environment, but we've also highlighted the significant upside embedded in the stock with even *modest* margin recovery. **TPIC's** multiple has been resilient (something we at least partially attribute to the relative scarcity value of U.S. listed Wind names – see Figure 1), and even if a 2025+ recovery ultimately falls short of **TPIC's** targets (which, again, we think is a realistic scenario), fractional progress should still be extremely meaningful for the stock (*ex. our 2025e EBITDA is +35% short of* ***TPIC's*** *target – Figure 5*).

Where Does That Leave Us? Given the framework laid out above and recent history of sporadic operational hurdles, the road remaining may not be the smoothest, and we're not ready to give **TPIC** full credit for its MT/LT financial targets, but following the Oaktree refi and recent commercial security, at $3/share, **even a small inflection point implies enough upside for us to step in here**.

Price Target: $8 (from $7) based on our 2025e EBITDA of $65.3MM and an EV/EBITDA multiple of 10x. **Outperform**.

...continued...

Stock Rating	**Outperform**
Price Target	**$8.00**
Current Price	**$2.80**
Upside/Downside	**186%**

52 Week Range	$1.63-$13.68

Source: FactSet

Market Cap ($MM)	$132
Enterprise Value ($MM)	$464
Dividend Yield	N/A
CF Yield	-66%
P/E (NTM)	N/A
EV/EBITDA (NTM)	17.2x
Debt to Cap	124%

Corporate Governance Quartile	**N/A**
Carbon Disclosure	**N/A**

Renewable Energy

Greg Wasikowski, CFA
646-993-0694
greg.wasikowski@webberresearch.com

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TPIC: Soft Q4 On Supplier-Driven Plant Shutdown. **TPIC** reported Q4 adjusted EBITDA of -$28.1MM on net sales of $297MM, both below Consensus of -$14.3MM and $343MM, respectively. Downside stemmed from a 10-week plant slowdown (including 4-week shutdown) due to out-of-spec material from a supplier (~$8MM and ~$23MM headwind to EBITDA and sales, respectively), as well as ongoing quality control programs, working capital initiatives, and the ramping down of five lines in preparation for early-2024 line transitions. We note **TPIC** plans to recoup a portion of the lost volume, EBITDA, and sales plus liquidated damages in 2024, although the amounts were unspecified.

Q4 Highlights & Earnings Call Notes

Outlook

- Expect 2024 to still be a transition year with financial performance improving y/y, particularly in 2024 when volume is expected to accelerate into 2025.
    - Expect annualized Adjusted EBITDA run rate to be +$100MM beginning in 2025.
- Recovery still hampered by policy unclarity, permitting hurdles, transmission bottlenecks, higher interest rates, inflation, and the cost and availability of capital.

2024 Guidance

- **Net Sales from Continuing Operations:** $1.3B-$1.4B (initial Consensus: $1.49B).
    - Blade sales down due to timing of startups/transitions and lower near-term demand being partially offset by higher ASP's of ~$8k/blade.
    - Expect lower automotive sales y/y being offset by higher Field Services sales y/y.
- **Adjusted EBITDA Margin:** 1-3% (implied range of $13MM-$42MM vs. initial Consensus of $47.1MM).
    - Improvements based on reduced impact from Nordex Matamoros plant, absence of Proterra bankruptcy, return of Field Services technicians generating revenue, and various cost savings initiatives. Offsets include wage adjustments and inflation as well as lower utilization y/y.
- **Utilization:** 75-80%.
- **Lines Installed:** 36.
- **Capex:** $25MM-$30MM.
- 2024 cadence to be H2-heavy, with Q1 volume likely being the lowest.
    - H1 EBITDA margin likely negative mid-single-digits, while H2 will likely be positive mid-single digits.
- **Long-Term Targets:** Wind Revenue +$2B with high single digit adjusted EBITDA margin and mid-single digit free cash flow margin.
    - Still expect to reach +$100MM adjusted EBITDA run-rate entering 2025.

Manufacturing Lines

- 12/19/23 – announced extension and expansion with Nordex in Turkey. Two lines will be added for total capacity of eight lines through 2026.
- 1/11/24 – announced an expansion with GE Vernova for additional lines in a third facility at **TPIC's** Juarez campus.

  - Expect to start up four lines for the new Workhorse blade this year. Production expected to ramp in Q224 and reach full serial production over H224.
- Extended supply agreement with Vestas through 2024 in Mexico and India.
  - Matamoros term to continue until one-year anniversary of the start of production which is expected in July 2024. TPIC has an option to terminate the agreement with Vestas' projected annual demand is less than 50% of the dedicated manufacturing capacity.
- Currently operating 37 lines and expect to close 2024 with 36 operating lines:
  - -4 in Matomoros (Nordex)
  - +4 in Juarez (GE)
  - -7 lines due to reconfiguration of facilities going from 3 lines to 2 lines.
  - +6 lines in startup/transition.
- Discussions ongoing for additional lines by end of 2024 ahead of expected volume ramp in 2025.

Field Service

- Field Service sales of $12.6MM were down 8.2% y/y on continued impacts from Q2's warranty campaign, although many technicians have been redirected to revenue generating work.

Automotive

- Automotive sales of $2.6MM were down 73.4% y/y primarily due to Proterra's bankruptcy.
- Continuing to evaluate strategic alternatives and expect to reach decision by mid-2024.

Financing

- On 12/14/23, **TPIC** announced it converted its existing $436MM Series A Preferred Stock to a $393MM Senior Secured Term Loan due 3/31/27 with Oaktree.
  - The remaining $43MM was exchanged into common equity via a separate purchase agreement (raising Oaktree's common equity stake to ~9.9% at the time of closing).
  - The Term Loan has an option to PIK 100% interest through 12/31/25 and 50% thereafter through maturity.
  - All previous financial covenants have been removed besides a minimum U.S. cash balance floor.

Supply Chain & Inflation

- Supply chain has improved considerably over the past two years although shipping rates remain elevated due to the Red Sea conflict.
- Raw materials costs continue to decline – excess key inputs and reduced Chinese demand support further cost reduction in 2024.

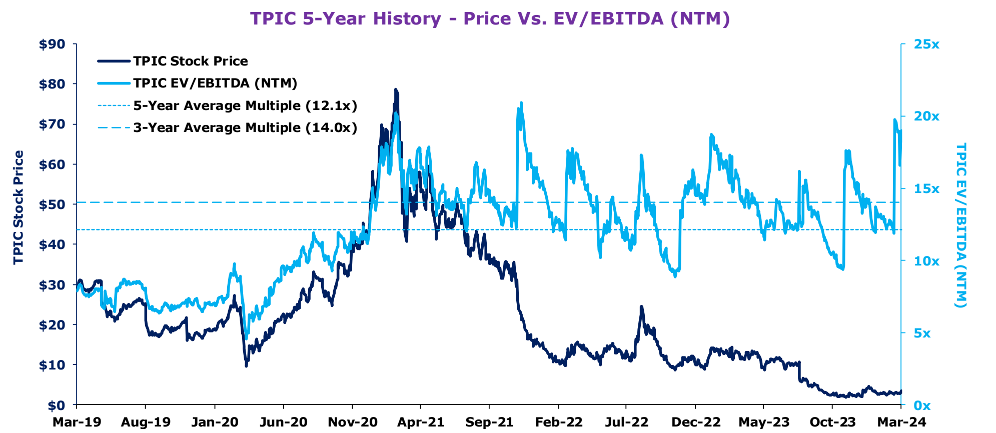
Q4 Recap

- Net sales of $297MM (vs. Consensus of $343MM).
- Adjusted EBITDA of -$28.1MM (vs. Consensus of -$14.3MM).
  - **Q4 Headwinds:**
    - Reduction in wind blade inventory (cost-to-cost accounting).
    - 10-week slowdown (including 4-week shutdown) at a plant due to out-of-spec material received from a supplier.

- Reduced Q4 revenue by ~$23MM and adjusted EBITDA by ~$8MM – volume, revenue, EBITDA, and liquidated damages expected to be recouped in 2024 from supplier.
    - Ramping down of 5 lines in preparation for early-2024 line transitions.
    - Quality initiatives.
    - Higher startup and transition costs.
  - Partially offset by higher ASPs and higher utilization.
- **KPIs**
  - Sets: 602 (down y/y from 649)
  - MW: 2,632 (down y/y from 2,828)
  - Utilization: 87% (up y/y from 71%)
  - Dedicated Manufacturing Lines: 37 (up y/y from 36)
  - Manufacturing lines installed: 37 (up y/y from 36)

__TPIC's__ EV/EBITDA multiple has been relatively resilient despite to its stock price falling over the past 2.5 years.

Figure 1. TPIC 5-Year History – Price Vs. EV/EBITDA (NTM)



Source: Factset

Using __TPIC's__ average valuation multiple from the past 3 years, even partial progress on its long-term targets implies significant upside in the stock.

Figure 2. TPIC Valuation Sensitivity Analysis (14x EV/EBITDA Multiple)

TPIC Valuation Sensitivity Analysis (14x EV/EBITDA Multiple)							
			TPIC Annual Revenue Scenarios ($MM)				
			FY24 Guidance		Middle	Long-Term Guidance	
			Low	High	Ground	Target	Upside
			$1,300	$1,400	$1,700	$2,000	$2,500
TPIC EBITDA Margin Scenarios	FY24 Guidance	1%	($3)	($2)	($1)	($0)	$1
		2%	$2	$2	$4	$6	$9
		3%	$6	$7	$10	$13	$17
	Middle Ground	4%	$10	$11	$15	$19	$25
		5%	$14	$16	$21	$25	$33
		6%	$18	$20	$26	$32	$42
	Long-Term Guidance	7%	$23	$25	$32	$38	$50
		8%	$27	$29	$37	$45	$58
		9%	$31	$34	$43	$51	$66
	Prev. Guidance	12%	$43	$47	$59	$71	$90

Source: FactSet, Company filings, Webber Research & Advisory, LLC estimates

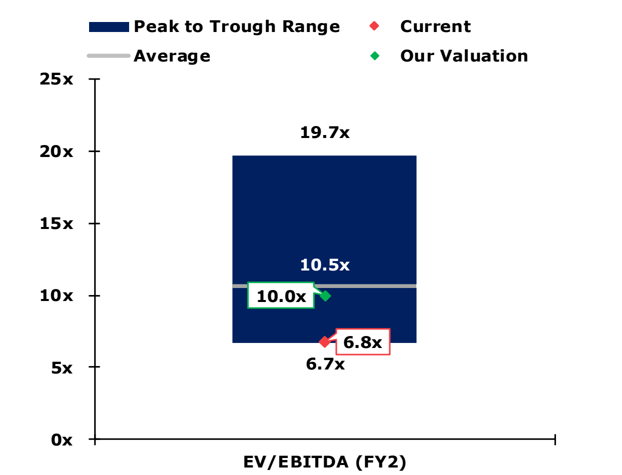
*Similarly, significant upside is still implied when using **TPIC's** modestly lower 5-year average EV/EBITDA multiple of 12x.*

Figure 3. TPIC Valuation Sensitivity Analysis (12x EV/EBITDA Multiple)

TPIC Valuation Sensitivity Analysis (12x EV/EBITDA Multiple)			TPIC Annual Revenue Scenarios ($MM)				
			FY24 Guidance		Middle Ground	Long-Term Guidance	
			Low	High		Target	Upside
			$1,300	$1,400	$1,700	$2,000	$2,500
TPIC EBITDA Margin Scenarios	FY24 Guidance	1%	($3)	($3)	($2)	($1)	$0
		2%	$0	$1	$3	$4	$7
		3%	$4	$5	$7	$10	$14
	Middle Ground	4%	$8	$9	$12	$15	$21
		5%	$11	$13	$17	$21	$28
		6%	$15	$16	$21	$26	$35
	Long-Term Guidance	7%	$18	$20	$26	$32	$42
		8%	$22	$24	$31	$37	$48
		9%	$26	$28	$35	$43	$55
	Prev. Guidance	12%	$36	$40	$50	$60	$76

Source: FactSet, Company filings, Webber Research & Advisory, LLC estimates

Figure 4. TPIC Fwd EV/EBITDA Valuation (FY2)



Source: FactSet

Figure 5. Webber Research TPIC Estimates

($MM except per share data)	Adjusted EBITDA Current	Adjusted EBITDA Previous	Adjusted EBITDA Change	Adjusted EPS Current	Adjusted EPS Previous	Adjusted EPS Change	GAAP EPS Current	GAAP EPS Previous	GAAP EPS Change	Revenue Current	Revenue Previous	Revenue Change
Q1 2024E	**($17.0)**	**$0.2**	($17.2)	**($1.08)**	**($0.37)**	($0.71)	**($1.17)**	**($0.83)**	($0.34)	**$256.7**	**$365.1**	($108.4)
%Y/Y Growth	*-302.3%*	*-97.5%*		*-490.2%*	*-102.1%*		*-32.4%*	*6.0%*		*-36.5%*	*-9.6%*	
Q2 2024E	**($11.3)**	**($1.9)**	($9.5)	**($0.93)**	**($0.43)**	($0.50)	**($1.02)**	**($0.89)**	($0.13)	**$283.5**	**$366.3**	($82.8)
%Y/Y Growth	*70.8%*	*95.1%*		*23.6%*	*64.9%*		*46.4%*	*53.4%*		*-25.6%*	*-3.9%*	
Q3 2024E	**$10.9**	**$10.2**	$0.7	**($0.34)**	**($0.10)**	($0.24)	**($0.43)**	**($0.56)**	$0.13	**$371.8**	**$409.1**	($37.3)
%Y/Y Growth	*139.9%*	*36.1%*		*69.3%*	*41.9%*		*74.9%*	*11.2%*		*-0.3%*	*9.4%*	
Q4 2024E	**$19.3**	**$18.9**	$0.4	**($0.12)**	**$0.13**	($0.24)	**($0.21)**	**($0.34)**	$0.13	**$414.6**	**$433.9**	($19.3)
%Y/Y Growth	*168.7%*	*26.2%*		*89.6%*	*279.8%*		*-167.7%*	*21.7%*		*39.6%*	*14.3%*	
2024E	**$1.9**	**$27.4**	($25.6)	**($2.46)**	**($0.77)**	($1.69)	**($2.82)**	**($2.61)**	($0.21)	**$1,326.7**	**$1,574.5**	($247.8)
%Y/Y Growth	*-77.8%*	*226.4%*		*-1246.7%*	*-320.2%*		*-220.2%*	*-195.9%*		*228.3%*	*289.7%*	
2025E	**$65.3**	**$84.8**	($19.5)	**($0.07)**	**$0.69**	($0.76)	**($0.44)**	**($1.15)**	$0.71	**$1,512.2**	**$1,708.4**	($196.3)
%Y/Y Growth	*3408.4%*	*209.4%*		*97.3%*	*190.6%*		*84.6%*	*56.0%*		*14.0%*	*8.5%*	

Source: Webber Research & Advisory, LLC estimates, Company filings

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